

House Co-Chair Representative Patricia Widliz

Senate Co-Chair John Fonfara

Finance, Revenue and Bonding Committee

300 Capitol Avenue

Hartford, CT

Dear Chairs, Vice Chairs, Ranking Members and Members of the Finance and Revenue Bond Committee:

I submit this testimony regarding Raised Bill 369: **An Act Concerning Change to the Department of Revenue Services Statutes**. I support this Bill conditionally.

My name is Nicholas Paindiris of Glastonbury CT. I am here to address this Bill (i) from the perspective of an attorney for more than 40 years dealing with hundreds of clients with sales tax issues, (ii) from the perspective of a former owner of two businesses that collected and remitted sales taxes to DRS and (iii) from the perspective of being a principal of Pay My Taxes, LLC which has partnered with First Data Corporation to devise a system by which merchants can escrow their sales tax obligations automatically on a daily basis at no cost to the merchants.

The sales tax delinquency rate has been estimated to be 5% of sales tax revenues across the U.S. which translates to approximately \$150,000,000 in CT with more than 3.5 billion dollar in sales tax revenue. That's a lot of money that we cannot afford not to collect.

Raised Bill 369 attempts to address this problem by having delinquents remit once a week; I presume the theory is that the less time a merchant holds on to the sales taxes i.e. a week instead of the current 30 days, the greater the likelihood for payment to the State. There is logic to this proposal and in that regard I do support this Bill. But, this will not solve the problem, because *the Bill does not deal with the causes of delinquency*.

The fundamental cause of delinquency is the fact that the State allows a merchant to commingle the trust money collected (i.e. sales taxes) with the merchant's operating account. I don't know of any other class of people who are allowed to do that; Attorneys for example are required to segregate their money from money belonging to their clients; and so are the real estate agents. Trust funds are purposely segregated to eliminate the temptation of using trust funds for one's personal use. Yet that's exactly what the State allows merchants to do and that's why merchants become delinquent.

As stated by Katherin Barrett and Richard Greene in an article entitled “Growth and Taxes” in **Governing Magazine**, “A Tax Policy is only as good as the systems that collect the taxes and make it simple for people to pay them”. It’s time to devise a system that is simple for people to pay their taxes

The starting point in reducing and eliminating delinquency is to require delinquents to segregate their trust money from their own money and on a daily basis. To some of you, such a requirement sounds too burdensome. But in today’s technology, that is not the case. A merchant can easily comply by going to the bank and depositing their sales tax collections from the previous day. Most merchants go to the bank every day anyway to make deposits, and to get change for their customers. So these merchants can easily make a deposit to their operating account and to their separate tax account.

Other merchants can accomplish the very same thing by going on line and transfer money from their operating account to the sales tax trust account. That’s easy to do these days and at no cost.

Lastly, there is even a more idiot proof way of accomplishing the same thing. Every merchant who accepts credit and debit cards has to have a credit card processor to convert the card swipes to real money. The technology is now such that merchants can simply direct their credit card processor to automatically fund their trust account from the credit debit card batches of the night before. Its automatic and no cost to the merchant. That’s what today’s technology can do and that’s what Pay My Taxes does. This process is not proprietary and thus such service can be done by all other credit card processors.

Once that money is in the separate account, then you have solved the problem. And if this Bill passes with a daily escrow requirement, the merchants will have the sales tax money saved in their trust account to remit to the State and be in compliance. And if DRS decides in the future to collect the money not on a weekly basis but on a daily basis, the funds are already in place for the State to do so.

I support the Bill but it needs enhancement in the manner suggested.

Respectfully submitted,

Nicholas Paindiris